MAINE ECONOMIC OUTLOOK

Although the U.S. job recovery is painfully slow, Maine's job growth has been significantly behind the U.S. While the U.S. has recovered nearly two thirds of the jobs lost in the recession, Maine has recovered only 10%. The primary reasons are slower growth in Maine in the key sectors leading the recovery including education & health services, professional & business services, construction, and manufacturing. Only in leisure & hospitality is Maine matching the U.S. in employment growth. The downshifted U.S. economy in 2013 resulting from contractionary fiscal policy will delay Maine's recovery to pre-recession employment until the end of 2016, a year later than the NEEP forecast from Spring 2012.

Manufacturing is one of the areas where Maine's recovery is lagging. While U.S. manufacturing is said to be "back", mostly because of the auto industry's recovery from near death. But Maine, with its reliance on forest products for a quarter of its manufacturing output, is still challenged. Wood products remains depressed because of the slow housing recovery, while paper is severely challenged with declines in publishing due to the recession and technology shifts to computers and tablets. Maine manufacturing is not forecast to recover to pre-recession levels in this forecast and will need a significant change in markets or products to recover its historic role in Maine's economy.

1. Destined for Disappointment Again?

The second quarter of 2013 marks the fifteenth quarter since the beginning of the recovery from the Great Recession. Employment declines in the U.S. and Maine ceased in 2010, with the U.S. having lost 8.6 million jobs, a fall of 6.2%. Maine, which was about two quarters later than the U.S. going into recession, lost 28,000 jobs or 4.5% of employment. This somewhat less devastating performance of the Maine economy has not been matched in the recovery.

The U.S. jobs recovery has been described as disappointing, but it has been a virtual rocket compared with Maine's recovery. Through the first quarter of 2013, the U.S. economy is estimated to have recovered 64% of lost employment, or about 5.6 million jobs. Maine has barely eked out 3,000 jobs, or just over 11% of the jobs lost. In each of the past three years, Maine has been unable to sustain three successive quarters of job growth in any year. So is 2013 to be yet another year in which job growth in Maine is expected to disappoint?

Maybe. After a slight decline in the first quarter (which may be revised upward given revisions that have already taken place in the U.S. figures for the first quarter), the forecast is for three consecutive quarters of employment growth which will leave Maine at the end of 2014 about 6,000 jobs back. But after a second quarter of, relatively speaking, solid growth, the Maine economy will slow dramatically in the second half of the year, with both the third and fourth quarter growth rates barely indistinguishable from stagnation or decline. This slowing of growth is a direct result of the expected effects of federal fiscal policy on the national economy.

If Maine can hold on to employment gains through the rest of 2013, the remainder of the forecast shows a steady growth through the remainder of the forecast period, but at a remarkably slower rates than the U.S. This is fairly typical of Maine's pattern after recessions are over, but the current recovery period is already the longest and most difficult of the postwar era. The current forecast calls for Maine to return to pre-recession employment levels in the fourth quarter of 2016, which would place the entire recession-recovery cycle in Maine at nine years. The effects of federal fiscal policy and underlying national trends push the recovery five quarters later than in the NEEP forecast a year ago.

The relatively faster recovery in jobs in the U.S. indicates that the U.S. will recover to pre-recession employment levels in mid-2014, a fully two years ahead of Maine. Maine's trend has, in fact, been behind that of the U.S. since the fourth quarter of 2011 as U.S. job growth stepped, however lightly, on the gas, and Maine stayed stuck in neutral.

Both Maine and the U.S. hit the bottom of employment declines in the third quarter of 2010, about a year after the recession, which is measured by declines in output or the Gross Domestic Product. This is a typical pattern since employment is always a lagging factor in the economy; only after sales and output begin to grow do businesses begin to hire employees back. From the third quarter of 2010 to the first quarter of 2013, over 80% of the employment growth in the U.S. was accounted for by Professional & Business Services, Leisure & Hospitality, Education and Health Services, and Manufacturing.

In a typical recession-recovery cycle, the goods related industries like construction and manufacturing would lead the economy into and out of recession, but in the Great Recession, while these industries definitely led the economy into recession, it has been service industries like professional & business services, leisure & hospitality, and education & health. Government, which normally loses relatively few jobs in a recession serves as a stabilizing force in the typical recession-recovery phases of the cycle.

Maine and the U.S. have had similar patterns in the early stages of the recovery period in terms of the lead industries, but the growth rates have been much slower in Maine, with the exception of construction, where the relatively milder effects on the housing market in Maine gave Maine a little advantage. But government declines in Maine coupled with little or no growth in all other sectors, have offset Maine's meager growth in the leading sectors. Maine has also suffered from continued declines in manufacturing even as the U.S. manufacturing sector added jobs, primarily because of the recovery in the U.S. auto industry, an industry that is largely absent in Maine. (Manufacturing is discussed in greater detail below.)

The lag in Maine's performance in professional & business services and in education & health is explained by different factors. In the case of professional & business services, this is now a larger sector than manufacturing in terms of employment in Maine and one of the higher paying sectors. But it is a sector that grows fastest in urban areas and in larger urban areas outside Maine where firms in the sector serve large markets. While Maine's sector is increasingly serving customers outside Maine, our economy is still too small and reliant on sustained and more rapid overall U.S. economic growth to achieve significant growth rates if U.S. growth is slow.

In the case of education & health services, which is predominantly (>90%) health care, Maine has seen significant growth in this sector over the past decade, as has the rest of the country. But growth has slowed because population growth in Maine has been negligible, and there have been particular stresses on hospitals, which have seen declines in utilization as declines in employment and insurance have led to a reduction in demand. Hospitals have also been under severe financial stress because of errors in reimbursement payments from the State, which have left the hospitals some $400 million short of payments for services already rendered. While the State is attempting to resolve this problem in the current legislative session, the drag has already been noticeable.

Leisure & hospitality, a traditional strength in Maine, has seen some employment growth, and this will accelerate later this year with the addition of three new hotels currently under construction in Portland. But overall tourism numbers have been very stable over the last few years, and have not been helped by the delayed opening of Acadia National Park due to the sequestration of funds by the Federal Government.

All of the key sectors are forecast to grow over the next five years, but at slower than the U.S. rates of growth. Among the sectors, construction, leisure & hospitality, and professional and business services will add jobs, but at slower rates than the U.S. because Maine will rely primarily on U.S. economic growth to drive Maine's smaller economy. Construction will be slower than U.S. growth because the U.S. recovery in construction will be faster from the lower points reached.

In sum, Maine is ill positioned to take advantage of the sectors that have been recovering employment at the national level, stretching the time to recovery of pre-recession employment levels by a full year. In 2013, with its continued overhang from a contractionary federal fiscal policy will be one more year of barely moving the Maine employment needle. If succeeding years can avoid still more policy or economic crises, underlying U.S. growth should be enough to begin seriously pulling Maine the rest of the way towards recovery. But part of Maine's ability to get back will depend on achieving some stability in manufacturing, which Maine has had a serious problem with in all of the previous recessions. The prospects for manufacturing are discussed in the next section.

2. Manufacturing in Maine: From Leading to Supporting Role

In 1960, Maine had 300,000 employees and 100,000 of them worked in manufacturing jobs. Until the 1980s the most distinctive characteristic of the Maine economy was its dependence on manufacturing, particularly textiles, shoes, apparel, and forest products. Today, Maine's economy supports 600,000 jobs, of which only 50,000 are in manufacturing, so manufacturing has gone from 1 in 3 Maine jobs to 1 in 12. Manufacturing still accounts for a higher share of the state's GDP (11.4% in 2011) than it does of employment (8.3%), but Maine's manufacturing sector's output as a share of total GDP is now smaller than the U.S. (12.3%) and just slightly ahead of New England as a whole (11.0%).

Five industries comprise the majority of Maine's manufacturing sector by output. Forest products, including lumber & wood products and paper make up a quarter of the sector, while "other transportation equipment", comprising ship and boat building, and fabricated metals make up a little less than a quarter. Food processing, which includes potatoes, seafood, and a variety of specialty foods, makes up another 10%.

Three industries actually showed some output growth (petroleum, chemicals, and machinery, all of which are quite small) during the recession. The largest share of the decline in output during the recession was in forest products, which accounted for 24% of pre-recession output but 34% of the output drop.

The disproportionate share of wood products in the fall of output is not surprising given the drop in construction activity during the recession as the principal product of the wood products industry is dimension lumber. And the wood products industry is expected to show some recovery over the next several years as housing recovers. More troubling in the forest products industry is what is happening in paper.

The value of paper production from 2007-2010 fell by more than 40%. This, combined with a significantly disproportionate share in the printing industry (10% of the decline compared with 5% of pre-recession output), reflects both the cyclical decline in advertising in print media and the long term structural issues in the magazine, newspaper, and publishing industries as electronic technologies take an increasing share of the market for the printed word and image. There will be some recovery from the cyclical effects, but the technological challenge to printing and printing paper will continue and most certainly intensify in the future.

The other major drop in output came in the other transportation equipment industry. This consists of the ship and boat building industry and repair industry. The shipbuilding industry in Maine is Bath Iron Works and the Portsmouth Naval Shipyard (whose employment is counted in Maine). Both of these enterprises are being affected by cuts to the defense budget, but these cuts are post 2010. Rather, the driving force in the decline in this industry is boat building, which in Maine is over 90% for the recreational boating industry, and which saw a huge decline in demand in the wake of the recession and the drop in the stock market.

This is a cyclical change, which has already stabilized and should be reversed, bringing boat building back to approximately pre-recession levels in the next year. In addition, the Navy has announced that it will be purchasing an additional ten Arleigh Burke class destroyers, which is the principal product of BIW. BIW will get 5 or 6 of these destroyers, which should keep the yard's employment more or less stable through the end of the decade.

Overall the forecast for manufacturing in Maine is that it will stay steady at about 50,000 jobs through the forecast period. This would be 9,000 jobs down from the pre-recession peak, and represents deterioration in the NEEP outlook, which had foreseen more of a recovery in manufacturing. Some industries may beat this forecast, with food being a possibility, along with Maine's relatively small auto parts manufacturing. Wood products may do well if housing construction recovers more rapidly than foreseen, but overall this recession-recovery cycle appears to be one more stage in the long decline of Maine manufacturing. There are still strengths in the sector with a number of highly competitive companies, but as a whole, manufacturing in Maine must find new markets and products in the next expansionary cycle if it is assume anything like its historic role.

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